



**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**INITIAL AUDIT**

**FOR THE PERIOD ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis For the Period Ended June 30, 2005 .....	3
Statement of Net Assets - As of June 30, 2005 .....	7
Statement of Revenues, Expenses, and Changes in Net Assets – For the Period Ended June 30, 2005 .....	8
Statement of Cash Flows - For the Period Ended June 30, 2005 .....	9
Notes to the Basic Financial Statements For the Period Ended June 30, 2005 .....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	21
Schedule of Findings.....	23

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Main Street Automotive Magnet School  
Montgomery County  
24 N. Jefferson Street  
Dayton, Ohio 45402

To the Governing Board:

We have audited the accompanying basic financial statements of the business-type activities of Main Street Automotive Magnet School, Montgomery County, (the School), as of and for the period ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School and of the business-type activity, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the accompanying financial statements, for the period ended June 30, 2005, the School has incurred a working capital deficiency of \$66,383, and accumulated deficit net assets of \$97,902. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans regarding this deficit are included in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussions and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

April 14, 2006

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the Main Street Automotive Magnet School's (the School) financial performance provides an overall review of the School's financial activities for the period ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. Since fiscal period 2005 was the first year of the School's existence, comparative information is not available.

**Financial Highlights**

- The School had net assets of negative \$97,902 at June 30, 2005.
- Total assets at June 30, 2005 were \$27,914 and total liabilities were \$125,816.
- The School had operating revenues for fiscal period 2005 of \$293,474 and operating expenses for fiscal period 2005 of \$421,366.

**Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Statement of Net Assets**

The statement of net assets includes all assets and liabilities both short-term and long-term using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal period 2005. Since this is the School's first year of existence, comparisons to fiscal year 2004 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

**(Table 1)  
Net Assets**

	<u>2005</u>
<b>Assets</b>	
Current Assets	\$9,493
Capital Assets, Net	18,421
Total Assets	<u>27,914</u>
<b>Liabilities</b>	
Long-Term Liabilities	75,876
Current Liabilities	49,940
Total Liabilities	<u>125,816</u>
<b>Net Assets</b>	
Invested in Capital Assets	18,421
Restricted	17,871
Unrestricted (Deficit)	<u>(134,194)</u>
Total Net Assets	<u><u>(\$97,902)</u></u>



**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net assets for fiscal period 2005. Since this is the School's first year of existence, comparisons to fiscal year 2004 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

**(Table 2)  
Change in Net Assets**

	<b>2005</b>
<b>Operating Revenues</b>	
State Foundation	\$292,504
Disadvantaged Pupil Impact Aid	970
Total Operating Revenues	293,474
Non-Operating Revenues:	
Federal and State Grants	23,524
Gifts and Donations	8,712
Total Non-Operating Revenues	32,236
Total Revenues	325,710
 <b>Operating Expenses</b>	
Salaries	147,426
Fringe Benefits	29,765
Purchased Services	118,166
Rent	58,500
Materials and Supplies	67,509
Non-Operating Expenses	
Interest and Fiscal Charges	2,246
Total Expenses	423,612
Change in Net Assets	(97,902)
Net Assets Beginning of Period	0
Net Assets (Deficit) End of Period	(\$97,902)

At June 30, 2005, the School had net assets at negative \$97,902. The School's plan is to seek increased enrollment which will result in an increase in State Foundation funding.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Capital Assets**

At the end of the fiscal period 2005, the School had \$18,421 invested in furniture and equipment.

Table 3 shows fiscal period 2005 balances.

**Table 3  
Capital Assets (Net of Depreciation) at June 30**

	<u>2005</u>
Furniture and Equipment	<u>\$18,421</u>

For more information on capital assets, refer to Note 4 of the basic financial statements.

**Debt Administration**

The School had a \$49,150 business loan outstanding at June 30, 2005. The loan was issued during fiscal period 2005 in the amount of \$49,150 to cover operating expenses. No principal payments have been made. Refer to Note 10 of the basic financial statements for additional information.

**Current Financial Issues and Concerns**

Main Street Automotive Magnet School is in an unsecure financial position at this time. For the period ended June 30, 2005, the School had incurred a working capital deficiency of \$66,383 and accumulated deficit net assets of \$97,902.

The School's plan is to seek increased enrollment. For the 2005-2006 school year had an increase in enrollment of approximately 36 students. This will result in increased State Foundation funding of approximately \$224,000.

In addition, the School had a Charter School Grant approved for the 2005-2006 school year which will result in increased funding of \$300,000.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact Phyllis Bixler, Treasurer at Main Street Automotive Magnet School, 24 North Jefferson Street, Dayton, Ohio 45402 or e-mail at [ww\\_treas@mdeca.org](mailto:ww_treas@mdeca.org).

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$1,724
Intergovernmental Receivable	7,769
	<hr/>
Total Current Assets	9,493

**Non-Current Assets:**

Capital Assets:

Depreciable Capital Assets, Net	18,421
	<hr/>

Total Assets	<hr/> <hr/> 27,914
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**Liabilities:**

**Current Liabilities:**

Accounts Payable	66,059
Accrued Wages and Benefits Payable	7,075
Intergovernmental Payable	2,742
	<hr/>

Total Current Liabilities	75,876
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**Non-Current Liabilities:**

Business Loan Payable	49,150
Compensated Absences Payable	790
	<hr/>

Total Non-Current Liabilities	<hr/> 49,940
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Total Liabilities	<hr/> <hr/> 125,816
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**Net Assets:**

Invested in Capital Assets	18,421
Restricted for Other Purposes	17,871
Unrestricted (Deficit)	(134,194)
	<hr/>

Total Net Assets (Deficit)	<hr/> <hr/> <hr/> (\$97,902)
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*See accompanying notes to the basic financial statements.*

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE PERIOD ENDED JUNE 30, 2005**

<b>Operating Revenues:</b>	
State Foundation	\$292,504
Disadvantaged Pupil Impact Aid	<u>970</u>
Total Operating Revenues	<u>293,474</u>
 <b>Operating Expenses:</b>	
Salaries	147,426
Fringe Benefits	29,765
Purchased Services	118,166
Rent	58,500
Materials and Supplies	<u>67,509</u>
Total Operating Expenses	<u>421,366</u>
Operating Loss	<u>(127,892)</u>
 <b>Non-Operating Revenues (Expenses):</b>	
Federal and State Grants	23,524
Gifts and Donations	8,712
Interest and Fiscal Charges	<u>(2,246)</u>
Total Non-Operating Revenues (Expenses)	<u>29,990</u>
Change in Net Assets	(97,902)
Net Assets Beginning of Period	<u>0</u>
Net Assets (Deficit) End of Period	<u><u>(\$97,902)</u></u>

*See accompanying notes to the basic financial statements.*

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED JUNE 30, 2005**

**Increase (Decrease) in Cash and Cash Equivalents:**

**Cash Flows Used for Operating Activities:**

Cash Received from State of Ohio	\$286,917
Cash Payments to Employees for Services	(168,233)
Cash Payments to Suppliers for Goods and Services	(179,467)
	(179,467)

Net Cash Used for Operating Activities (60,783)

**Cash Flows from Noncapital Financing Activities:**

Federal and State Grants Received	22,312
Gifts and Donations	8,712
Business Loan Proceeds	49,150
Business Loan Interest Payments	(1,475)
Fiscal Charges	(771)
	77,928

Net Cash Provided by Noncapital Financing Activities 77,928

**Cash Flows from Capital and Related Financing Activities:**

Cash Payments for Capital Acquisitions	(15,421)
	(15,421)

Net Increase in Cash and Cash Equivalents 1,724

Cash and Cash Equivalents at Beginning of Period 0

Cash and Cash Equivalents at End of Period 1,724

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities:**

Operating Loss	(127,892)
	(127,892)

**Adjustments to Reconcile Operating**

**Loss to Net Cash Used for Operating Activities:**

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(6,557)
Increase in Accounts Payable	63,059
Increase in Accrued Wages and Benefits Payable	7,075
Increase in Intergovernmental Payable	2,742
Increase in Compensated Absences Payable	790
	790

Total Adjustments 67,109

Net Cash Used for Operating Activities (\$60,783)

*See accompanying notes to the basic financial statements.*

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**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

The Main Street Automotive Magnet School ("the School") is an Ohio Public Benefit Corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702.01(P) to address the needs of students in grades 9 through 12. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the School.

The School is in the process of obtaining exemption from federal income taxes as a tax exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

The School was approved for operation under contract with the Lucas County Educational Service Center (the Sponsor) commencing September 20, 2004 and ending June 30, 2009. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School contracted with RJ Investments to perform extended educational services. One member of RJ Investments also serves on the School's Governing Board. This related party transaction is further discussed in Note 13 to the basic financial statements.

The School operates under the direction of a five-member Governing Board. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The primary government of the School consists of one fund, several departments and the Board. School programs include general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Education Cooperative Association, which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its proprietary fund. The more significant of the School's accounting policies are described below.

**A. Basis Of Presentation**

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus**

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus, all assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activity.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

**1. Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. Cash and Cash Equivalents**

All monies received by the School are maintained in demand deposit accounts. For internal accounting control purposes, the School segregates its cash. Individual fund integrity is maintained through School records and the USAS accounting system. Total cash for all funds is presented as "Cash and Cash Equivalents" on the accompanying statement of net assets.

**E. Capital Assets**

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. The School does not record depreciation on capital assets in the year of acquisition. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Equipment	5 years
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**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported on the statement of net assets.

**G. Intergovernmental Revenues**

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review resulted in an adjustment of \$6,557 to foundation revenue and receivable in fiscal period 2005 financial statements.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to service already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for all employees after ten years of current service for all positions (including certified and non-certified staff).

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets restricted for other purposes include resources restricted for required food service operations and federal and State grants restricted to expenditures for specified purposes.

The statement of net assets reports a negative \$97,902 of restricted net assets, of which none is restricted by enabling legislation.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

**K. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**L. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract agreement between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

**3. RECEIVABLES**

Receivables at June 30, 2005, consisted of intergovernmental (federal and state) receivable. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Lunchroom Subsidy	\$1,212
State Foundation	<u>6,557</u>
Total Intergovernmental Receivable	<u><u>\$7,769</u></u>

**4. CAPITAL ASSETS**

Capital asset activity for the period ended June 30, 2005 was as follows:

	<b>Balance 9/20/04</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/05</b>
Capital Assets Being Depreciated				
Furniture and Equipment	\$0	\$18,421	\$0	\$18,421
Less Accumulated Depreciation				
Furniture and Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Capital Assets Being Depreciated, Net	<u><u>\$0</u></u>	<u><u>\$18,421</u></u>	<u><u>\$0</u></u>	<u><u>\$18,421</u></u>

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**5. RISK MANAGEMENT**

**A. Property and Liability**

The school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal period 2005, the School was not covered for building and contents or liability through an insurance company.

**B. Workers' Compensation**

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

**6. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005, was \$2,550; 95.38 percent has been contributed for fiscal year 2005.

**B. State Teachers Retirement System of Ohio**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2005 was \$15,747; 95.08 percent has been contributed for fiscal year 2005.

**7. POSTEMPLOYMENT BENEFITS**

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS (Continued)**

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$1,211 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,345 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For fiscal year 2005, School paid \$828 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$238.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**8. OPERATING LEASE**

The School leases building and an office facility from the Jefferson Offices, LLC, under a non-cancelable operating lease. The term of this lease commences September 1, 2004 through October 31, 2007. The lease payment includes use of the buildings, maintenance, custodial and grounds services. The lease payment was \$58,500 for the fiscal year ended June 30, 2005. The estimated future minimum lease payments as of June 30, 2005 are as follows:

<u>Period Ending June 30,</u>	<u>Amount</u>
2006	\$ 58,005
2007	61,155
2008	20,660
	<u>\$139,820</u>

The lease includes a tenant option to renew and extend the lease for two additional three year periods ending October 31, 2013 if certain conditions are met, at annual costs rising to \$198,000.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**9. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining sick leave components are derived State Laws. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days. Upon retirement, payment is made for one-fourth of the total accumulated and unused, up to a maximum of 120 days for employees.

**10. LONG-TERM OBLIGATIONS**

The changes in the School's long-term obligations during the period were as follows:

<u>Long-Term Obligation</u>	<u>Amount Outstanding 9/20/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2005</u>
Business Loan	\$0	\$49,150	\$0	\$49,150
Compensated Absences	0	790	0	790
Total Long-Term Obligation	<u>\$0</u>	<u>\$49,940</u>	<u>\$0</u>	<u>\$49,940</u>

On February 2, 2005, the School entered into a business loan agreement with Sky Bank for operating expenses in the amount of \$50,000. The loan contained no maturity date and is due upon Sky Bank's demand. The loan carries a variable interest rate of 2 percent over the prime interest rate. Loan proceeds are accessible through monthly draws; at June 30, 2005 the total draws totaled \$49,150. The loan was outstanding at June 30, 2005.

**11. CONTINGENCIES**

**A. Grants**

Amounts received from grantor agencies are subject to audit and adjustment by the Grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. This review resulted in an adjustment of \$6,557 to foundation revenue and receivable in fiscal period 2005 financial statements.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**11. CONTINGENCIES (Continued)**

**C. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral arguments occurred November 29, 2005. The effect of this suit, if any on the Main Street Automotive Magnet School is not presently determinable.

**12. PURCHASED SERVICES**

For the period ended June 30, 2005, purchased service expenses for services rendered by various vendors were as follows:

Professional and Technical	\$101,278
Property Services	3,541
Travel and Meeting	136
Communications	6,179
Other	<u>7,032</u>
Total Purchased	<u><u>\$118,166</u></u>

**13. RELATED PARTY TRANSACTIONS**

The School contracted with RJ Investments to perform extended educational services. One member of RJ Investments also serves on the School's Governing Board. Total payments made for these services during the period ended June 30, 2005 were \$117,860 including \$58,500 for rent. Of that total, \$27,280 including \$6,500 for rent was payable as of June 30, 2005.

The community school contract requires one percent of all funds received from the State of Ohio to be transferred to the Lucas County Educational Services Center for sponsorship fees. Totally payments made during the period ended June 30, 2005 were \$2,869. Of that total, \$452 was payable as of June 30, 2005.

**14. JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Dayton Educational Cooperative Association** - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$2,187 for services provided during the period. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2005  
(Continued)**

**15. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT**

The School's plan is to seek increased enrollment. For the 2005-2006 school year had an increase in enrollment of approximately 36 students. This will result in increased State Foundation funding of approximately \$224,000.

In addition, the School had a Charter School Grant approved for the 2005-2006 school year which will result in increased funding of \$300,000.





**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Main Street Automotive Magnet School  
Montgomery County  
24 N. Jefferson Street  
Dayton, Ohio 45402

To the Governing Board:

We have audited the basic financial statements of the business-type activity of Main Street Automotive Magnet School, Montgomery County, (the School), as of and for the period ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 14, 2006, wherein we noted the School has a net accumulated deficit that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-006 through 2005-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-006 listed above to be a material weakness. In a separate letter to the School's management dated April 14, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-005. In a separate letter to the School's management dated April 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School's management dated April 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, governing board. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

April 14, 2006

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Finding for Recovery-Expenditures Lacking Documentation or not Serving Proper Public Purpose**

The court case, *State ex rel. McClure v. Hagerman*, 155 Ohio St. 320(1951) provides that expenditures made by a governmental unit should serve a public purpose. The School made various expenditures without proper supporting documentation or not serving a proper public purpose totaling \$1,206.17 as follows:

1. Check number 5040, issued on April 13, 2005, to Joe Singleton, Director and Board Member, for reimbursement of expenses he claimed in the amount of \$650, however he did not provide supporting documentation for \$137.50.
2. Check number 5041, issued on April 19, 2005, to Joe Singleton for reimbursement of expenses he claimed in the amount of \$896.98, however he did not provide supporting documentation for \$41.06.
3. Check number 5044, issued on April 25, 2005, to Joe Singleton for reimbursement of expenses he claimed in the amount of \$714.30 that included an overpayment of \$19.99 for cell phone charges.
4. Check number 5061, issued on May 17, 2005, to Joe Singleton for reimbursement of expenses he claimed in the amount of \$1,058.30, however he did not provide supporting documentation for \$263.69. Additionally, Mr. Singleton was reimbursed for fuel in amount of \$46.50 after mileage had already been reimbursed at \$0.40 cents per mile.
5. Check number 5052, issued on May 25, 2005, to Joe Singleton for reimbursement of graduation expenses in the amount of \$150, however this had been previously reimbursed with check number 5063, dated May 18, 2005.
6. Check number 5552, issued on June 15, 2005, to Joe Singleton for reimbursement of expenses he claimed in the amount of \$1,975.95 that included reimbursement for fuel in amount of \$50 after mileage had already been reimbursed at \$0.40 cents per mile.
7. Check number 5555, issued on June 27, 2005, to Joe Singleton for reimbursement of expenses he claimed in the amount of \$2,345.54, however he did not provide supporting documentation for \$97.43. Additionally, Mr. Singleton was reimbursed for a field trip in the amount of \$400 which did not have Board approval.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Director Joe Singleton, Treasurer Phyllis Bixler and her bonding company, the Cincinnati Insurance Company joint and severally, in the amount of \$1,206.17, in favor of Main Street Automotive Magnet School.

**Officials' Response** – Additional documentation was presented for check 5040, 5061 and 5052. This does not clear up the entire finding but hopefully it can be reduced somewhat.

**Auditor of State's Analysis** – The additional documentation was reviewed and considered in determining the final amounts in the findings for recovery issued above.

### FINDING NUMBER 2005-002

#### **Finding for Recovery – Repaid under Audit - Expenditures Lacking Documentation**

The court case, *State ex rel. McClure v. Hagerman*, 155 Ohio St. 320(1951) provides that expenditures made by a governmental unit should serve a public purpose. The School issued check number 5013 on February 7, 2005 to Attorney Derrick Strahorn for a 501(c)(3) application in the amount of \$500. This expenditure did not have any supporting documentation.

This payment was subsequently refunded to the School by Mr. Strahorn on February 6, 2006, via receipt #00209 as the service was not performed. The School should implement procedures to provide that goods/services are provided, as applicable, prior to payment, or that follow up occurs for all prepaid items.

**Officials' Response** – We did not receive a response from Officials to this finding.

### FINDING NUMBER 2005-003

#### **Finding for Recovery - Overpayment of Lease**

The School entered into a lease agreement with Jefferson Offices, LLC for lease of space for operations on August 25, 2004. The School was to pay annual rent of \$55,980.00 in twelve monthly installments of \$4,665.00 from October 1, 2004 through September 30, 2005. Additionally, the School was to pay the cost of gas for other than normal heat, electricity or such utilities and air conditioning.

RJ Investments, Inc., the School's management company, paid rent on behalf of the School and invoiced the School \$6,500.00 for rent and utilities each month. Per Mr. Singleton \$5,400.00 of this amount was for the rent. Utilities averaged \$600.00 per month and the remainder was for general upkeep for such things as supplies, general repairs of walls, bulb replacement.

RJ Investment, Inc. charged \$735.00 per month more for rent than what was due to Jefferson Offices, LLC. This resulted in an overpayment of \$8,820.00 to RJ Investments, Inc. for rent over twelve month period from October 1, 2004 through September 30, 2005.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against RJ Investments, Inc., Treasurer Phyllis Bixler, in the amount of \$8,820, and the Cincinnati Insurance Company in the amount of \$6,615 (for the six month period covered by the Treasurer's bond), joint and severally, in favor of Main Street Automotive Magnet School. Additionally, the School should develop and implement procedures to pay its obligations directly from valid invoices or contracts.

**Officials' Response** – We strongly disagree with the calculation of the finding. School did not start until October 2004 with the ending of the school year being 6/30/05. However, the finding is based on 12 months, October 2004 through September 2005. Using 12 months, which extends into FY2006, increases the finding by three months or approximately \$2200. We still have time in FY06 for adjustments to these early months of Fiscal Yr 2006.

**Auditor of State Analysis** – It is the practice of the Auditor of State's office to extend our review of the findings for recovery through the period of activity. However, we do agree that any adjustments made to the lease agreement during the subsequent fiscal years may be applied to the resolution of the finding for recovery.

**FINDING NUMBER 2005-004**

**Overpayment of Contract – Agreement to Repay**

The Board hired Craige DeVaughn as a Teacher’s Aide/Secretary for the 2004-2005 school year at a salary of \$26,000 to be paid in equal installments over 24 pay periods. Due to the School starting its operations in September, the employee was only paid for 19 pay periods, however, the School used the amount of \$26,789.52 for payroll calculations and payments.

Based on the following calculation, the contract was overpaid by \$625.04.

Contract #2 Amount	\$26,000.00
Number of pay periods in Contract	<u>24</u>
Gross Salary Per Pay Period	\$1,083.33
Number of pay periods at this contract (September 16, 2004 - June 30, 2005)	<u>19</u>
Total Gross Salary at Contract #2	\$20,583.33
Actual Salary for School Year 2004-2005	<u>\$21,208.37</u>
Overpayment Amount	<u><u>\$625.04</u></u>

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Craige DeVaughn and Treasurer Phyllis Bixler in the amount of \$625.04, and the Cincinnati Insurance Company in the amount of \$427.66 (for the six month period covered by the Treasurer’s bond), joint and severally, in favor of Main Street Automotive Magnet School. (An agreement to repay this amount from future payrolls beginning May 16, 2006 was signed by Mr. DeVaughn on May 5, 2006.)

**Officials’ Response** – We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-005**

**Ohio Rev. Code Section 3314.011** provides the School designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07 (B) requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. Subsection (B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. Subsection (B)(3) states that bonding is conditioned on the faithful performance of the employee’s official duties. Should an error or theft occur without a performance bond, the School may not be able to recover any funds that are lost.

The School opened on October 1, 2004, but the Board did not execute a bond for the position of fiscal officer (treasurer) until December 31, 2004. The School should implement procedures to provide that the treasurer is adequately bonded at all times.

**Officials’ Response** – We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-006**

**Cash**

Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the accounting records provide a reasonable assurance that all receipts and expenditures have been correctly posted on the entity's books and have been correctly posted by the bank.

The following errors/exceptions were noted during the test of cash for Main Street Automotive Magnet School as of June 30, 2005:

1. Donations to the School from Mr. Singleton, the School's Director, totaling \$7,581 were not posted on School's records. These occurred from September through November 2004, and May 2005,
2. Bank charges in the amount of \$771 were not posted on School's records,
3. Voided checks in the amount of \$284 were not updated on the system,
4. Payroll expenditure in the amount of \$7,917 was not posted on School's records. These occurred during October and December 2004,
5. Posting errors in the amount of \$43 were not corrected on the system on School's records,
6. Expenditures in the amount of \$7,559 were not posted on School's records. These occurred during February, May and June 2005,
7. Receipts in the amount of \$3,045 were not posted on School's records.
8. The School posted \$850 more in loan receipts than it actually received on School's records.
9. A variance of \$280 was noted on check #1005 between the amount that cleared the bank and the amount per School's records.
10. The School did not post loan fees of \$150 on its records.
11. The employer's share of Medicare was overbooked by \$545 on the School's records. Main Street Automotive Magnet School

Audit adjustments were made to present the correct cash balance in the accompanying financial statements.

Procedures should be implemented to verify that monthly bank reconciliations are performed in a timely and accurate manner and any reconciling items are addressed within a reasonable period, and include review by personnel independent of the reconciliation process. The Governing Board should also review, and if acceptable, approve the reconciliations. Timely bank reconciliations should help the School eliminate the fees paid to the bank due to non-sufficient funds and stop payments as well as providing an accurate presentation of the School's financial status.

**Officials' Response** – We did not receive a response from Officials to this finding.

#### **FINDING NUMBER 2005-007**

##### **Capital Asset Policy**

There was not a Board approved capital asset policy. Due to the lack of a policy, the School did not record capital asset additions in amount of \$18,421. These additions were based on a \$1,000 capitalization threshold which was provided by the Treasurer. An audit adjustment to correctly present capital assets was made to the accompanying financial statements.

A capital asset policy should be developed and adopted to provide for consistency in accounting for and reporting capital assets. The policy should include capitalization thresholds, depreciation methods, useful lives, procedures for timely posting of capital asset additions and deletions to the capital asset list, as well as a required periodic physical inventory. The physical inventory results should be compared to the actual list and any differences. This should improve the School's ability to correctly maintain the records and provide documentation in the event of a loss.

**Officials' Response** – We did not receive a response from Officials to this finding.

#### **FINDING NUMBER 2005-008**

##### **Deficit Net Assets**

The School's financial statements reflect deficit net assets of \$97,902 as of the year end, which indicates that the School has spent/obligated more funds than it had available and a lack of fiscal control and monitoring by the School's management and Board which could result in the School being unable to meet its future obligations.

Although management has prepared a plan to address this deficit, procedures should be implemented by the Board to routinely monitor the School's actual activity and financial records, and the actual implementation of the plan, to provide for the long-term financial stability of the school.

**Officials' Response** – We did not receive a response from Officials to this finding.







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MAIN STREET AUTOMOTIVE MAGNET SCHOOL  
MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 20, 2006**